State of Colorado

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Honorable Bill Owens
Governor of Colorado
136 State Capitol Building
Denver, Colorado 80203

Honorable Representative Brad Young
Chair, Joint Budget Committee
Colorado General Assembly
200 East 14th Avenue
Denver, Colorado 80203

Dear Governor Owens and Representative Young:

In accordance with the Total Compensation Reform Act and based on my review of the findings of the enclosed 2005-06 Annual Compensation Report and the needs of our workforce, I have prepared this total compensation recommendation for your consideration. This recommendation requests that the General Assembly appropriate an additional $46.2 million for employee total compensation for next fiscal year[1] as shown in the following table.

FY 2005-06 TOTAL COMPENSATION RECOMMENDATION AND ESTIMATED COST (Including associated PERA and Medicare costs)	
Components	**Cost**
Salary adjustment	$25,688,660
Performance-based pay awards	$11,189,850
Range width adjustments	$488,634
Combined Health, Dental, & Life/AD&D	$8,832,635
Total	**$46,199,799**

I believe that the above allocation of these dollars strikes the best balance for the executive branch workforce. Specifically, the salary adjustment would maintain the State's competitive pay ranges and assure employees are being paid comparably.[2] The statewide average salary adjustment is 2.3%. The specific salary adjustment for each occupational group is shown in the table below.

[1] This requested appropriation excludes Higher Education Institutions, Department of Law, Treasury, Department of State, Judicial, and General Assembly.
[2] Employees rated "Needs Improvement" will be excluded from salary adjustments.

Occupational Group	**Average Midpoint Movement**	**Total State Classified Employees**
Enforcement and Protective Services*	2.30%	5,830
Financial Services	3.10%	1,757
Health Care Services (and Medical)	2.30%	3,388
Labor/Trades/Crafts	2.50%	5,326
Administrative Support and Related	2.20%	5,038
Professional Services	2.10%	7,849
Physical Sciences and Engineering	2.60%	1,928
Teachers	2.10%	245
Overall Weighted Average	2.30%	31,361

* State Trooper salaries will increase by an average of 5.3% (with SB 03-273 applied) pursuant to C.R.S. § 24-50-104 (1)(a)(III)(A).

I am recommending allocating 1.1% of total payroll for performance pay awards (difference between 3.4% total salary adjustment and 2.3% average range adjustment found in the market). Since implementing performance-based pay three years ago, appropriations were 1.1% for FY 2002-03, 0% for FY 2003-04, and 1.1% for FY 2004-05. With our Department's five-year strategic planning, it is my intention to reach a meaningful performance award amount that is consistent with the State's historical contributions to the anniversary budget. In the past, the State budgeted approximately 2.2% to ensure that employees could progress within their pay ranges. However, given the tight budget for FY 2005-06, I recommend that we fund performance pay amount comparable to the labor market. When budget permits, it is my goal to allocate a sufficient amount of budget in order to assure that state employees have a real opportunity to move within their pay ranges.

In order to enhance performance-based pay, I am recommending narrower pay ranges over time by increasing the minimum of the range by 1%. Narrowing the width of the pay ranges by further upward adjustments to the minimum salaries provides an additional mechanism for employees at the low end of the ranges to be eligible for larger salary adjustments than those at the higher end. This will enhance performance-based pay by creating narrower pay ranges over time, which will help with recruitment and retention, and provide a better opportunity for high-performing employees to move through their pay ranges.

Overall, an additional $8.8 million is requested for the State's contributions to group benefit plans for the plan year. These new dollars will help address the critical issue of recent double-digit increases in health care premiums and bring our health care contributions closer to prevailing practice. For group insurance contributions, the State continues to be below the market. One of the goals in our five-year strategic plan is to reach prevailing contribution levels and to allow state employees the flexibility of choosing the compensation package that best meets their needs. Last year, the General Assembly funded our recommendation to achieve 56% of the prevailing contribution levels. For FY 2005-06, I am recommending that we continue to close this critical gap by building on last year's progress and take the State to 65% of the prevailing contribution dollars found in the market. The following table shows the recommended increase in state contributions.

HDL	CY 2004	CY 2005	Jan 06-Jun 06
Health – Employee only	$156.06	$178.06	$205.90
Health – Employee + one	$232.52	$303.50	NA
Health – Employee + spouse	NA	NA	$370.70
Health – Employee + children	NA	NA	$347.20
Health – Family	$326.46	$420.03	$508.90
Dental – Employee only	$16.26	$16.26	$13.53
Dental – Employee + one	$16.26	$16.26	NA
Dental – Employee + spouse	NA	NA	$20.50
Dental – Employee + children	NA	NA	$23.32
Dental – Family	$16.26	$16.26	$29.97
Life	$2.00	$4.68	$4.68

The Department has made two primary changes to the benefits structure for state employees. First, the Department will be implementing a four-tier enrollment structure for medical benefits commencing in FY 2005-06, which aligns the State's policies with prevailing practices. Second, as permitted by HB04-1449, I plan to align the annual group benefits plan year to coincide with other elements of total compensation on a fiscal year basis commencing July 1, 2005. The Department has devised new and innovative plan designs for FY 2005-06. Our new plan designs will include a high deductible option that will qualify for a Health Savings Account (HSA). Changing group benefits plans to a fiscal year cycle will enable the Department to deliver an HSA-qualified plan to state employees six months sooner.

Despite the change to a four-tier enrollment structure and shifting the annual group benefits plan year to a fiscal year, the state contribution will remain constant in aggregate for CY 2005. In fact, no new dollars are requested or necessary to accommodate the change to a fiscal year cycle. This is consistent with the Fiscal Note accompanying HB04-1449 concluding that changing to a fiscal year cycle would not have a fiscal impact.

The August 1, 2004 survey findings indicate that a total additional cost of $60.9 million (as explained in footnote 1 on the first page of this letter) is needed for the State to match prevailing practices with respect to salary and benefit adjustments. Due to budgetary constraints, my recommendation results in a total additional appropriation of $46.2 million for FY 2005-06. It remains vital that the State meet its statutory obligation to offer competitive total compensation to its employees. Based on the current fiscal constraints, this recommendation for the State's appropriated general government positions maximizes the State's investment in its employees and helps us meet our obligation. Please visit the following site for FY 2005-06 annual compensation survey findings **http://www.colorado.gov/dpa/dhr/comp/pay.htm**.

Sincerely,

Jeffrey M. Wells

Jeffrey M. Wells
Executive Director

cc: State Legislators, Cabinet Members and Higher Education Presidents.